

**Senate Budget and Fiscal Review Subcommittee #4 on
Legislative, Executive, Judiciary, Transportation, and
General Government**

**Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny**

**Wednesday, May 21, 2003
1:30 p.m.
Room 3191**

Agenda #3

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**Proposed Consent Calendar
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0840 State Controller

1. Exempt Positions. This proposal would reclassify three positions to be exempt positions. The proposed language is as follows:

Section 7.9b is added to the Government Code, to read:

The Governor, upon nomination by the Controller, shall appoint three nominees as deputies of the State Controllers office to serve at the pleasure of the Controller. These positions will be in addition to those provided for in Sections 7.9 and 7.9a. Absent an affirmative appointment by the Governor, the nominee or nominees submitted by the Controller shall be deemed appointed by the Governor 30 days following their nomination by the Controller. The nominees so appointed shall be exempt from the state civil service system and shall be compensated in an amount not to exceed the compensation provided to career executives at category level V. The Controller shall reclassify three positions currently authorized in the Controller's office for the purpose of establishing the exempt appointments herein.

2. May Revision Finance Letter: Human Resources Management System (HRMS).

This is a request for additional reimbursement expenditure authority for \$1,036,000 and eight one-year limited-term positions to conduct procurement activities and a business case savings study for the HRMS project. The project will replace the SCO's employment history, payroll, leave accounting, and position control systems. The SCO estimates total project costs ranging from \$60 to \$83 million over ten years. Special funds will pay their share (\$36.5 million) between 2004-05 and 2007-08 and the General Fund will pay its share (\$36.5 million) between 2006-07 and 2012-13.

Consent Issues

3. May Revision Finance Letter: Warrant/Remittance Advice. This is a request for \$853,000, of which \$12,00 is GF and \$865,000 is reimbursements, to fund the costs of increased warrants and remittance advices.

4. Finance Letter: Reappropriation. This request to reappropriate funds for the purpose of performing statewide mandate claims audits.

0890 Secretary of State

Issues

1. Vacant Position Funding. DOF eliminated 24 positions and \$1.3 million dollars pursuant to Control Section 31.60. Of this amount, 19 positions and \$1 million were associated with the Business Fees Fund (BFF). Pursuant to Control Section 31.70, DOF restored the maximum of \$510,000 (BFF) in the current year.

The budget proposes to augment the budget by \$200,000 to address the backlog from enactment of AB 55, which requires corporations to file annual, rather than biennial, reports with the SOS. The bill also requires that the information collected must be open to public inspection and that this information be available on an online database.

The LAO recommends deleting the \$200,000 augmentation because additional funding for the backlog has been approved.

2. Electronic Campaign and Lobbying Disclosure Filings. Current law requires candidates, officeholders, committees, and lobbyists with contributions, expenditures, or loans of \$50,000 or more to file statements and reports online with the Secretary of State.

Trailer bill language proposed in the budget would delete the monetary threshold and thus require everyone to meet the online filing requirement. The budget assumes savings of \$137,000 (GF) and elimination of three positions if this language is adopted.

Consent Issues

3. Finance Letter: Address Confidentiality Program. This Finance Letter requests \$75,000 (GF) and 1 position on a two-year limited-term basis due to enactment of Chapter 380, Statutes of 2002, which expanded the Address Confidentiality Program for Victims of domestic Violence and Stalking to include employees of women's reproductive health service providers.

4. May Revision Finance Letter: Annuitant Health and Dental Benefit Costs. This Letter requests a reduction of \$127,000 (\$22,000 GF and \$105,000 special funds) to offset increased annuitant health and dental benefit costs resulting from employees retiring under the Early Retirement Program. A corresponding increase is included in Item 9650 for Health and Dental Benefit Costs for Annuitants.

8940 **Military Department**

Issues

1. Santa Ana Armory. The 2002-03 supplemental report to the budget included language requiring the Military Department to report to the Joint Legislative Budget Committee and the chairs of the legislative budget committees by December 1, 2002, about the feasibility of relocating the Santa Ana armory to a new site, including how the relocation fits in with the department's long-term capital development plan and the availability of federal construction funds. The report should also include an estimate of the cost of relocating the armory in Orange County.

2. Los Alamitos Armed Forces Reserve Center - Fire Protection Services. The firefighters of the Los Alamitos Joint Forces Training Base are employees of the Military Department. The employees are considered on state active duty. The Military Department pays these firefighters from federal funds. The employees have similar protections to civil servants, although they do not have collective bargaining rights.

At the last hearing, the Military Department stated that negotiations were underway between the department and the Orange County Fire Authority. There has been one meeting and staff is not aware of additional meetings scheduled to resolve the issue.

Consent Issues

3. Finance Letter: State Active Duty Compensation. This is a request for an augmentation of \$2.5 million (\$1.4 million GF, \$36,000 reimbursements, and \$1.0 million federal funds) to provide an increase in State Active Duty compensation based on the military compensation increase granted by the federal government.

4. Finance Letter: Azusa and Lancaster Armory. This is a request to reappropriate the Azusa Armory funding for construction and equipment due to delays in the acquisition of the required site. There is also language to increase expenditure authority to reflect the reappropriation and to shift from non-state federal funds to federal funds. There is also budget bill language to shift funding for the Lancaster Armory from reimbursements to federal trust funds.

1730 Franchise Tax Board

1. Political Reform Audit Program. The budget proposes trailer bill language to change the funding for compliance audits from the General Fund to the Political Reform Audit Fund (newly created special fund). The trailer bill language would impose a fee on candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain committees for deposit in the newly established fund.

The budget proposed trailer bill language imposing an unspecified fee at the time of filing statements with the Secretary of State. The fee, although unspecified, is estimated to generate \$1.36 million. This amount equals the costs for FTB to perform these audits and thus would result in savings of \$1.36 million (GF).

Should the subcommittee amend the trailer bill language to generate sufficient revenue with an equitable fee schedule so that the fee does not discourage participation in either the election process or registration of lobbyists?

Are there constitutional problems with the language?

9210 Local Government

1. Special Subventions for Redevelopment Agencies. Business inventory was exempted from the property tax in 1982-83. The state reimbursed the property tax revenue loss to local governments. The state reimbursements were eliminated in 1984-85.

A special subvention program was established to reimburse the property tax loss related to bond debt of redevelopment agencies. The Controller allocates funds to redevelopment agencies that have pledged special supplemental subventions as security for payment of the principal and interest on bonds and have insufficient funds to cover their maximum annual debt service requirement on those bonds. Huntington Park and Santa Maria are the only redevelopment agencies that receive these subventions.

When the program began in 1984-84, the subvention to redevelopment agencies was about \$50 million. The state subvented \$1.4 million in 2002-03 for this purpose. There is proposed trailer bill language to eliminate funding for this subvention permanently.

2. Redevelopment Agency Property Tax Transfer. The budget proposes trailer bill language to transfer 25 percent of the property tax increment allocated to redevelopment agencies that otherwise would have been received by schools to ERAF in 2003-04. This transfer is estimated to be \$250 million and would reduce General Fund apportionments to K-14 education by the same amount.

The trailer bill language provides that if a redevelopment agency cannot meet the tax increment transfer to ERAF because of debt or other contractual obligations, the county auditor shall transfer the property tax from the sponsor city or sponsor county of the redevelopment agency.

In future fiscal years, RDA's would increase this transfer by 5 percent per year until the schools receive the amount of local property tax they would have received if there were no redevelopment agency within their boundaries.

9100 Tax Relief

Issues

1. Open Space Subventions.

The **January 10 budget** proposed to eliminate subventions to cities and counties to compensate for special property tax treatment of land in Williamson Act Contracts in the budget year for savings of \$40.1 million (GF).

The **May Revision** requests restoration of the \$40.1 million.

8885 Commission on State Mandates

The January 10 budget proposed reimbursing local government \$1,000 for specified mandates and paying the full cost in future fiscal years with statutorily required 3 percent compounded interest. Local governments will still be required to perform the mandate, but their payment will be deferred.

Issues

1. Finance Letter: Investment Reports: Cities and Counties (Ch. 783/95) AND County Treasury Oversight Committees (Ch. 784/95). Requires cities and counties to file investment reports and for county treasury oversight committees to meet.. The May Revision requests that these mandates be suspended rather than deferred. This will relieve the GF of repaying \$3.5 million (GF) in future years.

2. Regional Housing Needs Allocation Process (Ch. 1143/80). Local governments are required to zone enough land at appropriate densities to meet all of their housing needs for each income group and to reduce barriers that prevent the identified sites from being developed. COGs are required to allocate to each community its share of the regional housing need and these costs are reimbursable. Cities and counties are compensated for the identification of sites in their housing element to meet the targets assigned to them by the COG. In addition, some local governments have received reimbursement for the costs of "review" of the proposed housing need allocations and for the costs of completing some recent additions to the housing element itself.

The state reimbursement for this mandated program (\$867,000 GF) was deferred in 2002-03. The budget proposes to appropriate \$1,000 so that the mandate continues but the reimbursement is deferred.

1760 Department of General Services

Issues

1. Rate Increase for the State Emergency Telephone Number Account (911 Account). Current law provides for a surcharge of up to 0.75 percent on intrastate calls. These funds can be used to pay refunds, administrative costs of the Board of Equalization and DGS for administering the surcharge, bills submitted to DGS by service suppliers or communications equipment companies for the installation and ongoing expenses for the 911 emergency phone number system, and claims of local agencies for approved incremental costs related to the 911 emergency phone number system.

The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to this fund by \$46.6 million to a total of \$181.2 million. The use of the funds would be expanded to include the California Highway Patrol for providing 911 emergency assistance. The CHP is allocated \$41 million from this fund in the proposed budget. These revenues would replace existing funding sources.

This increase in the surcharge is considered a "tax" and not a "fee" because there is not a logical, direct relationship between the use or purposes and the persons from whom it was collected. This trailer bill language is considered a "change in state taxes for the purpose of increasing state revenues" and would require a two-thirds vote.

2. State Printing Policy. *In 2002, AB 3000 provided that state printing procurement is not considered a personal service contract.*

AB 3000 also provided that that state departments would not be required to submit all printing projects to OSP, but instead could obtain printing services through a bidding process that would allow OSP to also bid on the project. This provision sunsets on the effective date of the 2003 Budget Act or June 30, 2003, whichever occurs later.

The budget proposes trailer bill language *to extend this sunset to the effective date of the 2004 Budget Act or July 1, 2004, whichever is later. The statute is repealed as of January 1, 2005.*

Should this language be adopted? Should this language be permanent?

3. Governor's Residence. The City of West Sacramento has offered to donate a piece of land to the state for a new Governor's residence, as well as a state park. DGS is working on the land transfer deal on behalf of the Department of Parks & Recreation. The Reclamation Board is reviewing at whether the residence can be built on the water side of the levee.

The Governor's Residence Account in the General Fund has a balance of \$3.6 million. These revenues are from the sale of the Governor's residence that was never inhabited. The general belief is a new governor's residence would be built using money from this account combined with other private money.

DGS should provide the committee with a status of the current negotiations and the Reclamation Board's timeline on making a decision regarding the feasibility of building the residence on the water side of the levee.

- ***Will there be a cost for a land transfer and if so, who would pay for it?***
- ***Are there sufficient funds in the current account to pay the costs of the land transfer? For a new residence?***
- ***Are there restrictions on the expenditure of funds from the Governor's Residence Account?***
- ***How will the initial up-front costs be paid?***
- ***Who will have liability for the land once the transfer occurs?***
- ***Who will be responsible for insurance, maintenance and security and operations, before and after the residence is built?***

4. Finance Letter: Proposed New Control Section 5.50. This Control Section would authorize DGS to develop and implement a plan to generate savings of up to \$100 million (\$50 million GF) through various contract renegotiations.

Staff proposes an alternative to this Control Section:

SEC 5.50. (a) The Legislature finds and declares that it is in the best interest of the State to encourage state departments and agencies to engage in entrepreneurial practices to achieve savings related to statewide leasing, contracting, and procuring goods and services.

(b) Notwithstanding any other provision of law, General Fund support appropriations in various state departments and agencies in this act may be reduced, as appropriate, to reflect a cumulative General Fund reduction of up to \$50 million.

(c) Any reduction that exceeds either (1) five hundred thousand dollars (\$500,000) or (2) 10 percent of the amount available for expenditure in the affected program, project, or function may be authorized not sooner than 10 days after notification in writing to the chairperson of the committee in each house of the Legislature that consider the State Budget and the Chairperson of the Joint Legislative Budget Committee.

Consent Issues

5. Finance Letter: Office of Administrative Hearings. This is a request for \$800,000 (SRF) for court reporter services as administrative hearings.

6. Capitol Security. Augment the budget by \$4 million (GF) for Capitol Security.

1111 Bureau of Automotive Repair

Issues

1. Smog Check II Program – Telephone Referral System for Test-Only Stations.

BAR has a web site with information by zip code or city regarding test-only stations. The information is available only in English. The Department of Consumer Affairs (DCA) has an 800 number that provides a list of three randomly selected stations by zip code. From 8 a.m. to 6 p.m. on weekdays, you can talk to an individual in either English or Spanish.

The Subcommittee requested the Bureau to report on the telephone referral system.

Consent Issues

2. Loan from the Vehicle Inspection and Repair Fund. The budget act authorized a loan from the Vehicle Inspection and Repair Fund to the General Fund of \$5 million in 2001-02 and \$100 million in 2002-03. The budget proposes an additional loan to the General Fund of \$5 million in 2003-04. This would leave an ending balance of \$22.5 million on June 30, 2004.

Increase the loan to the General Fund from \$5 million to \$14 million.

1111 Office of Privacy Protection

OPP was funded at \$755,000 (GF) in 2001-02 and \$860,000 (GF) in the current year. The current year funding reflects a reduction of \$212,000 included in SB 19X that was approved by the Senate on February 24. The proposed budget of \$527,000 includes a reduction of \$529,000 and 1.4 PYs. This is a reduction from 7.1 PYs to 5.7 PYs or nearly 20 percent.

Issues

1. Investigation. The budget proposes the elimination of the only investigator and 0.5 analyst position for savings of \$99,000 (GF). The investigator serves as OPP's liaison to the Southern California High Tech Crimes Task Force.

2. Consumer Information and Education Programs. The budget proposes a reduction of \$414,000 (GF) or 41 percent of OPP's total budget to reduce funding for consumer information and education programs. This budget was reduced by \$212,000 in SB 19X. Assistance to identity theft victims and others with privacy concerns will be provided through the web site, public service announcements, e-mail, and a toll-free telephone line.

1120 Board of Accountancy

The California Board of Accountancy is responsible for regulating the practice of public accounting. The board currently regulates over 67,000 licensees, including individuals, partnerships and corporations. The board is unique in its authority to license and discipline not only individuals but also firms.

The California Accountancy Act authorizes the board to administer national examinations; certify and license CPAs and Public Accountants; register partnerships and corporations; investigate complaints; discipline licensees; and review work products of individuals and firms to ensure adherence to professional standards.

1. Implementation of New Legislation. In response to major audit failures of several corporations by auditing firms, the Legislature reconstituted the Board of Accountancy. Chapter 231, Statutes of 2002 [AB 270 (Correa)], increased the number of Board members from 11 to 15 and changed the composition of the Board so that a majority of the Board consists of public members. The Board currently has eight public members and five CPAs, with two vacancies. The bill also mandated the board to pass a series of new regulations by July 1 intended to enhance the board's enforcement program and increase reporting requirements by licensees (AB 2873, Frommer, Chapter 230, Statutes of 2002).

In 1996, the Joint Legislative Sunset Review Committee instructed the board to spend a larger percentage of its budget on enforcement than the 56 percent it spent in the 1995-1996 fiscal year. Since that time, the board has not increased this percentage. According to the Board, it spent approximately 50 percent of its budget on enforcement. Other professional boards, such as the medical board, spend closer to 75 percent of their budget on enforcement.

The Board expects this amount will be increasing significantly in the near future because of a reduction in examination costs. The transition to computer-based licensing examinations will result in a substantial reduction in the fees the board collects. This could have an adverse impact on staffing levels and could further diminish enforcement efforts. The board estimates that once California has fully transitioned to a computer-based examination, with a concurrent reduction in examination program funding, the enforcement program portion of the Board's budget will increase to approximately 59 percent. The full extent of this increase will not be felt

until 2004-05, which will be the first full-year with computer-based testing.

The Board met on May 16 to vote on new regulations.

What impact will diminishing fees have on the board's ability to comply with its new regulations and with state law?

Are staffing levels expected to decline in 2003-04?

2. Finance Letter: Reduction to Reflect Decreased Administrative Costs. A Finance Letter requests a reduction of \$999,000 (Accountancy Fund) to reflect decreased costs related to conversion of the Uniform CPA examination to a computer-based format.

0650 Office of Planning and Research

Issue

1. Cesar Chavez Day of Learning Grants. The December Revision proposed that the \$5 million annual appropriation for Cesar Chavez Day of Learning Grants be reduced by \$4,750,000 in 2002-03. This reduction was not implemented.

The budget proposes trailer bill language suspending the grants for the 2003-04 through 2005-06 fiscal years.

Consent Issues

2. Finance Letter: Transfer of Positions. This Finance Letter requests the transfer of eight positions from Teale Data Center to OPR. **The LAO** has no concerns with this request.

3. May Revision Finance Letter: This Finance Letter requests a reduction \$247,000 to reflect a transfer of resources from the OPR to the Native American Heritage Commission.

9620 Payment of Interest on General Fund Loans

The budget contains two budget act appropriations for the payment of interest on intra- and inter-year internal borrowing. The current year estimate of internal borrowing interest costs is currently estimated at \$45 million rather than the \$30 million estimated in January.

There is also a continuous appropriation for the payment of interest on external borrowing. External borrowing includes Revenue anticipation Notes (RANs) and Revenue Anticipation Warrants (RAWs). The May Revision estimates that the General Fund interest cost for 2002-03 will be \$302.6 million rather than the \$211.5 million estimated in January. This increase is to cover additional costs related to the issuance of RAWs anticipated to occur in June 2003.

The budget year costs of external borrowing are now estimated to be \$280 million, an increase of \$120 million from the amount estimated in January. This is expected to cover the interest costs of the \$11 billion of RAWs in June 2003.

1. Finance Letter: Reduction in Inter-year Internal Borrowing Interest Costs. This Letter requests a reduction of \$554,000 (GF) to reflect a lower estimate of inter-year borrowing interest costs from \$31.2 million to \$30.6 million.

1700 Department of Fair Employment and Housing

Issues

1. Workload. The budget proposes to reduce the budget by an additional \$3.1 million (GF) and 45 PYs, equal to about 20 percent of the staffing of the department. The department has a mandate to investigate cases within 365 days. After 365 days, DFEH loses jurisdiction. The complainant's only recourse is to obtain legal representation.

The budget proposes to close two district offices (San Bernardino and Ventura). It would also reduce staff from 21 to 13 at the Los Angeles district office.

8260 Arts Council

The California Arts Council budget was funded at \$49.7 million (\$47.9 million GF) in 2001-02 and \$21.5 million (\$19.6 million GF) in the current year. Most of this reduction (\$20 million) was attributable to the elimination of funding provided for district-specific projects. In addition, local grants were reduced by \$9 million. The January 10 budget proposes expenditures of \$13.6 million (\$12.0 million GF) in the budget year.

Issues

1. Arts in Education Program. Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided \$6.8 million (GF) in grants for this program in 2001-02 and \$6.2 million (\$5.7 million GF) in the current year. The **January 10 budget** proposes to reduce this amount by \$3.0 million (47 percent) to \$3.3 million (\$3 million GF) in the budget year. The **May Revision** proposes a further reduction of \$1.4 million (GF) or a 72 percent reduction from the current year.

2. Organization Support Grants. This program provides matching grants that leverage local private and public dollars for over 800 arts organizations throughout the state. Grants for this program were funded at \$9.7 million (GF) in 2001-02. The current year funding is \$5.8 million, adjusted for the \$102,000 reduction included in SB 19X.

The **January 10 budget** proposed to reduce funding by \$2.8 million (47 percent) for grant funding of \$3.0 million in 2003-04. The **May Revision** proposes a further reduction of \$1.4 million (GF) or an 85 percent reduction from the current year.

3. Simon Wiesenthal Museum (Tools for Tolerance). This grant program was funded at \$2 million (GF) in 2001-02. The current year funding is \$1.9 million (GF), adjusted for the \$100,000 reduction in SB 19X. This is the only program that contains a specific appropriation in the Arts Council budget.

The budget proposed to reduce the 2003-04 funding by \$200,000 to \$1.8 million (10% reduction). The **May Revision** proposes an additional reduction of \$300,000 (GF).

4. Finance Letter: Reduction in State Operations. The **May Revision** proposes reductions of \$532,000 (GF) and 17.7 PYs to reflect the above reductions.

5. San Francisco Mexican Museum. Adopt the following budget bill language:

Notwithstanding Provision 3(a) of 8260-103-0001 in the 1999-2000 Budget Act, funds appropriated to the San Francisco Mexican Museum may be used to enhance its programs.

Consent Issue

6. Finance Letter: Restore Federal and Special Fund Authority. The budget proposed reductions to all local assistance funding for CAC. This Finance Letter requests restoration of \$85,000 (federal funds) and \$287,000 (Graphic Design License Plate Account).

2920 Technology, Trade and Commerce Agency

Issues

1. Film California First Program. This program subsidizes fees that movie and television production companies pay to local governments for on-site filming in California. The Program was established for three years commencing in 2000-01 and is funded from the Film California First Fund (FCFF). The funding source for the FCFF is an annual transfer of up to \$15 million from the General Fund. Any remaining balance in the fund can be transferred to the General Fund.

The current year transfer of \$10 million (GF) was reduced by \$2 million in SB 19X for expenditures of \$7.9 million (FCFF). The budget proposes a transfer of \$8.2 million (GF) to the FCFF to be expended in 2003-04.

The LAO recommends elimination of the film permit subsidy program for savings of \$8.2 million (GF).

2. Foreign Trade Offices

The budget proposes continued operation of all trade offices. The state operates trade offices in seven locations. The state-funded trade offices are in Mexico, Hong Kong, Japan, United Kingdom, Germany, Taiwan, and South Africa. Total funding was \$ 6 million in 2001-02, \$3.9 million in 2002-03 and \$3.8 million in the budget year.

The LAO recommends that the Legislature eliminate the seven state-staffed foreign trade offices.

The Department of Finance states that eliminating the state-staffed offices will not eliminate all costs for those offices in 2003-04 due to ongoing facilities obligations, employment contract requirements, etc. Assuming a July 1 budget, TTCA estimates that the maximum savings from closing foreign trade offices would be \$2 million (GF).

3. Finance Letter: Military Base Reuse and Retention Program. The budget proposes to eliminate funding for this program. This program was funded at \$1.9 million in 2001-02 and \$0.9 million in the current year (\$190,000 General Fund and \$720,000 Federal Grant). The **January 10 budget** suspended funding for the program. This Letter requests \$180,000 (GF) for this program.

4. Finance Letter: Manufacturing Technology Program (MTP). The mission of MTP is to improve the competitiveness of California small- and medium-sized manufacturers. The program requires one-third federal/two-thirds other funding requirement. In 2001-02, MTP grantees were funded through grants of \$6.0 million (GF). The program was reduced to \$2.7 million in the current year.

The January 10 budget proposed to suspend funding for this program. The **May Revision** requests an augmentation of \$2.0 million (GF) for grants and reimbursements of \$126,000 and 1 position.

5. Finance Letter: Tourism Marketing Contract Funds. The California Travel and Tourism Commission is funded by a self-assessment on the travel and tourism industry. The state has contributed \$7.5 million (GF) and the industry contributed \$6.8 million to fund a competitive advertising campaign, an international and domestic marketing presence, conduct research, and provide travelers with information on California as a destination.

The budget, as introduced, proposed to eliminate funding of \$7.5 million (GF) for the Tourism Marketing Contract Funds. The **May Revision** requests an augmentation of \$2.5 million (GF). It also requests \$929,000 in reimbursement expenditure authority and 7.5 positions to restore collection activities for industry assessments on behalf of the Tourism Commission.

6. Finance Letter: California Main Street Program. The budget, as introduced, eliminated funding for this program. This Letter requests \$126,000 and 1 position to provide assistance to cities through this program.

7. Finance Letter: Small Business Loan Guarantee Program. The budget, as introduced, proposed eliminating \$548,000 (GF) for six positions that administer this program. This Letter requests an augmentation of \$326,000 (SBEF) and 3 positions for this program. There is also proposed trailer bill language to authorize the use of funds from the Small Business Expansion Fund to support these administrative costs.

8. Finance Letter: San Francisco/Oakland Bay Bridge Contractor Surety Program. This letter requests \$75,000 (SBEF) to assist small businesses owned by women and/or disabled veterans to participate in the construction of the Bay Bridge by providing surety bond assistance.

9. Trailer Bill Language Making Programs Permissive. This language provides that the programs of TTCA are to be performed subject to the receipt of state funds.

8380 Department of Personnel Administration

1. Finance Letter: Staffing to Implement a Layoff Plan. The budget, as introduced, included \$1.7 million (GF) and 29 half-year positions in both the current and budget year for DPA to process 10,000 layoffs. The current year augmentation was changed to \$290,000 and 5 half-year positions. The May Revision is requesting \$1.5 million (GF) to provide DPA with adequate staffing and funding to implement a layoff plan that would reduce the state workforce by 10,000 positions.

2. Finance Letter: Rural Health Care Equity Program. This letter requests restoration of \$11.3 million (GF) to fund health care costs of annuitants without access to HMOs. The letter reduces the request for state employees and annuitants due to a decrease in the number of counties without access to a CalPERS contracted HMO.

2100 Department of Alcoholic Beverage Control

Chapter 488, Statutes of 2001 increased liquor license fees in order to maintain funding of the Department of Alcoholic Beverage Control. The hiring freeze and Control Section 31.60 have resulted in the loss of 19 positions at ABC.

Should these positions be restored.

2180 Department of Corporations

1. Statewide Outreach on Predatory Practices (STOPP). The current year budget appropriated \$1.1 million (SCF) for STOPP. The administration requested \$10 million (SCF) and 25 one-year limited term positions to implement STOPP in the 2002-03 budget. The Legislature reduced this amount to \$1.1 million and no positions. The program is intended to make consumers aware of the department's responsibilities, the extent of fraud and abuse in the investment and lending industries, and where to get information and submit complaints. DOC awarded the contract for 2002-03 in April 2003.

The **May Revision** requests an augmentation of \$4 million to continue and broaden the STOPP program by reaching a larger target group of minority and elderly individuals. DOC is asking to conduct a statewide media campaign that was rejected last year.

2. Finance Letter: Restoration of Funding for Vacant Positions. This Letter requests \$407,000 (SCF) to continue funding in the budget year for positions restored in the current year pursuant to Control Section 31.70.

3. Finance Letter: Unanticipated Rent Costs. This letter requests an augmentation of \$229,000 (Corporations Fund) for unanticipated rent costs in Los Angeles and San Francisco.

4. Finance Letter: Transfer Settlement Funds to the General Fund. Revenues from settlements are deposited in the Corporations Fund along with fee revenues. The fee revenues must be used exclusive for departmental purposes, but the settlement revenues are considered civil penalties and can be transferred to the General Fund.

In the current year, the budget transferred \$9 million in settlement revenues to the General Fund. DOC has received two major settlements totaling \$45.6 million. Finance Letters propose transferring \$39.6 million of this settlement revenue to the General Fund.

2310 Office of Real Estate Appraisers

The budget proposes to transfer the regulation, enforcement, and administration of the Office of Real Estate Appraisers (OREA) to the Department of Corporations (DOC) effective July 1, 2003. This proposal would require trailer bill language. The only savings identified with this proposal are \$150,000 related to elimination of the director position for OREA. There would be one-time costs to OREA/Department of Corporations of \$293,000.

Departments cannot be eliminated through an urgency bill, so this change could not be effective until January 1, 2004. No requests have been made to reflect a later effective date.

2240 Housing and Community Development –

Issues

1. Housing Preservation Research Contract.

The budget proposed to eliminate funding in the current and budget year for a \$65,000 (GF) contract to maintain and update the statewide database on assisted housing units at risk of conversion.

HCD has an alternative funding proposal for this contract. This would spread the cost of the contract amongst various HCD funding sources. This program could thus be funded with a cost of \$6,000 (GF) in the budget year.

2. Proposition 46 (Housing and Emergency Shelter Trust Fund Act of 2002). This November 2002 bond measure authorized \$2.1 billion for various housing programs. Local project bond expenditures will be \$285 million in the current year and \$455 million in 2003-04.

The overall administrative costs of the bond funds are 3.92%. The only program with administrative costs more than 5 percent is the farmworker program, which has administrative costs of 9.9 percent.

The department should comment on why administrative costs for the farmworker program are higher than for other programs.

3. Emergency Housing Assistance Grants. The Emergency Housing and Assistance Program (EHAP) provides capital grants and operating funds for emergency shelters, transitional housing, and services for homeless individuals and families. In 2001-02, this program received \$13.3 million. The current year grant is \$5.3 million. The budget proposes to continue funding in 2003-04 at the \$4 million level.

4. Office of Migrant Services Program.

a) Rent Increase Proposal. The budget proposes to reduce funding of the Office of Migrant Services (OMS) center support by \$625,000 to be offset by a rent increase. This reduction is equal to 10.4 percent of state funding in this program.

OMS regulations provide that HCD shall seek funds from private, local, state and federal revenue source. The regulations further provide that HCD may either adjust the schedule of rents to fully fund the operating costs or by reducing any component of operating costs or the availability of units.

The residents currently pay from \$7 to \$8.50 per day, depending on the number of rooms. The proposed rent increases would be \$60 per month or of 24 to –29 percent.

The budget bill contains the following control language: *“Notwithstanding any other provision of law, the Department shall revise the rents charged the residents of the migrant centers to reimburse the actual, reasonable, and necessary costs of operation as necessitated by the reductions included in this item. The department may apportion those reductions, and adjust rents, as it deems appropriate.”*

b) Settlement. The department and the Attorney General's Office are in settlement discussions with a farm workers' group regarding over-payment of rents at migrant camps run by OMS.

The department is asked to comment in general about the progress of the settlement discussions and how the department plans to pay for any settlement that is reached in this case.

5. Employee Housing Program. The budget proposes eliminating \$721,000 (GF) and increasing regulatory fees on employers that provide housing. The fees would cover the cost of inspections. Fees would be increased from about \$125 per employer to \$1,000 per employer (800%) to cover the elimination of GF support. This fee increase requires trailer bill language.

6. Migrant Services Center Rehabilitation. The Planada facility is a migrant farmworker housing center in Merced County that needs approximately \$6 million in renovations. This project was scheduled to be completed with General Fund moneys in the current year, but was deferred due to budget constraints. The budget proposes to also defer the project in the 2003-04 year.

The LAO proposes that part of the \$25 million in migrant worker bond funds be used for this renovation.

7. Finance Letter: Funding Switch for Committed, but not Disbursed, Projects.

The May Revision requests a transfer of \$39.75 million from the Self-Help Housing Fund (SHHF) and the Housing Rehabilitation Loan Fund (HRLF) to the GF for projects that will now be funded from Proposition 46 Housing Bond Funds. There is trailer bill language clarifying HCD's authority to use the bond funds for this purpose.

8. Finance Letter: Reversion of Unused Housing Project Funds. The May Revision requests a transfer of \$16.7 million from the SHHF and HRLF to the General Fund. The funds were for projects have been delayed and can compete for housing bond funds if they meet the necessary requirements.

9. Finance Letter: Loan from Multifamily Housing Program Funds. This request is for a loan of \$31.68 million from the Housing Rehabilitation Loan Fund to the General Fund. The loan contains the standard repayment provisions including interest.

10. Finance Letter: Home Investment Partnerships Program (HOME). This is a request to increase \$22.5 million (federal funds) and 4.8 PYs for the HOME program. This will fund increased support costs and awards to assist cities, counties, and nonprofit community housing development organizations to create and retain affordable housing.

11. Finance Letter: Technical Correction. This is a request to correct a technical error in the budget to appropriate \$25.4 million in the budget act for the Jobs Housing Balance Incentive Grant/Workforce Housing Reward Programs. The budget accounted for this expenditure, but did not include an appropriation.

Control Section 4.10 Employee Compensation Savings Plan

1. Finance Letter: New Control Section. This proposed control section would provide DOF with the authority to adjust departmental appropriations in order to reflect the implementation of an employee compensation savings plan. There is related trailer bill language.

Proposed Consent Calendar (Adoption of Finance Letters and Other Actions)

0110 Senate

1. Inflation Adjustment. Decrease by \$176,000 (GF).

0120 Assembly

1. Inflation Adjustment. Decrease by \$240,000 (GF).

0130 Legislative Analyst

1. Inflation Adjustment. Decrease by \$10,000.

0750 Lieutenant Governor

1. Finance Letter: Technical Correction. The Finance Letter requests reinstatement of nine positions that were incorrectly deleted pursuant to the Control Section 31.60 (vacant positions).

0845 Department of Insurance

1. Finance Letter: Technical Correction. The budget was reduced by 31 vacant positions, but the budget inadvertently reduced 43 positions. This Finance Letter requests the authority for 12 positions to correct a technical error in the vacant position reduction.

0860 Board of Equalization

1. Finance Letter: Permanent Reclassification of Positions. The 2001 Budget Act authorized BOE to reclassify 50 tax auditor positions to tax collection positions in order to generate additional sales and use tax revenues through increased tax collections. This authority expires June 30, 2003. BOE asserts that the reclassification has resulted in increased revenues of \$8 million (GF) and \$2 million (local). The Finance Letter requests that this reclassification be made permanent.

2. May Revision Finance Letter: Interdepartmental Agency Agreement. This letter requests an augmentation of \$249,000 (GF) for increased DMV charges for collecting use tax on behalf of the BOE. The BOE is statutorily required to reimburse DMV for its administrative costs for collecting the use tax at the time of registration.

0954 Scholarshare Investment Board

1. Finance Letter: Extension of Loan Repayment Period. To fund Scholarshare start-up activities, the 1999-2000 budget authorized a \$829,000 loan from the General Fund to the Scholarshare Administrative Fund (SAF) for to be repaid by June 30, 2005. This Finance Letter requests a two-year extension to repay this loan due to insufficient revenues in SAF. The loan is repaid with interest at the rate earned by PMIA.

1100 California Science Center

1. Finance Letter: Reappropriation of Phase II Project Funds. This Finance Letter requests reappropriation of \$96.9 million in expenditure authority for Science Center Phase II Construction due to delay in operational start-up of the project.

1130 Board of Architectural Examiners

1. Finance Letter: Increased examination Costs and Caseload. The Finance Letter requests \$115,000 (Architectural Examiners – Landscape Architects Fund) for increased examination contract costs and caseload.

1340 Board for Geologists and Geophysicists

1. Finance Letter: Annuitant Health and Dental Benefit Costs. This Letter requests a reduction of \$6,000 (SF) to offset increased annuitant health and dental benefit costs resulting from employees retiring under the Early Retirement Program. A corresponding increase is included in Item 9650 for Health and Dental Benefit Costs for Annuitants.

1390 Medical Board of California

1. Finance Letter: Program Enforcement Monitor. This is a request for \$155,000 (SF) for a Program Enforcement Monitor contract per Chapter 1085, Statutes of 2002.

1450 Board of Psychology

1. Finance Letter: Decreased Administrative Costs. Requests a reduction of \$365,000 (Psychology Fund) to reflect administrative cost savings for converting the Professional Practice in Psychology examination to a computer-based format.

1705 Fair Employment and Housing Commission

1. Finance Letter: Operating Expenses. This requests a shift of \$125,000 from personal services to operating expenses to allow FEHC to fully fund its operating costs through the elimination of one position.

2320 Department of Real Estate

1. Finance Letter: Restoration of Funding through Control Section 31.70. This Letter requests \$117,000 (RECF) to continue funding in the budget year for operating expenses due to Control Section 31.60 reductions. The Administration contends the change is technical.

2780 Stephen P. Teale Data Center

1. Finance Letter: Transfer of Positions. This Finance Letter requests the transfer of eight positions from Teale Data Center to OPR. The LAO has no concerns with this request.

9650 Support, Health and Dental Benefits for Annuitants

1. Finance Letter: Early Retirement Program. This is a request for an augmentation of \$290,000 (GF) for the health benefits of annuitants that retired under the Early Retirement Program. The departmental budgets for each of the five affected departments have been reduced by an equal amount.

9800 Augmentation for Employee Compensation

1. Finance Letter: Augmentation. This is a request for \$3.8 million (GF) to provide funding for Recruitment and Retention Differentials implemented after January 10, 2003. These funds were set-aside for this purpose in the January 10 Governor's Budget, so there is no impact on the General Fund.

Control Section 3.60 PERS Benefit Contributions

1. Finance Letter: Change in State Retirement Contribution Rates. This control section changes the contribution rates to PERS to accurately charge departments for retirement expenses. These contributions will be funded in the budget year by pension obligation bonds.